LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6937 **NOTE PREPARED:** Jan 3, 2011
BILL NUMBER: HB 1223 **BILL AMENDED:**

SUBJECT: Property tax deductions for land sale contracts.

FIRST AUTHOR: Rep. Pryor **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill specifies the terms that a contract for the purchase of real property or a mobile home or manufactured home that is not assessed as real property must include to qualify the buyer for certain property tax deductions. It defines a contract containing the required terms as a qualified installment contract.

The bill provides that a person who: (1) owns property subject to taxation; (2) misrepresents a residential lease as a qualified installment contract; and (3) through the person's misrepresentation causes another individual to improperly claim a deduction that is made available to a buyer under a qualified installment contract; is liable for any additional taxes that would have been due on the property if the person had leased the property to the purported contract buyer, plus a civil penalty equal to 10% of the additional taxes due.

Effective Date: July 1, 2011.

Explanation of State Expenditures:

Explanation of State Revenues: The Department of Local Government Finance (DLGF) would receive 1% of the total civil penalties collected under this bill. The revenue would be used for maintaining the homestead property database.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, several property tax deductions are available to qualifying persons who either own property or are buying the property under contract. This bill would affect the mortgage, elderly, blind / disabled, disabled veteran, WWI veteran (and spouse), and homestead standard deductions. In order to qualify for these deductions, this bill specifies that the contract must (1) be recorded, (2) require the buyer to pay property taxes, (3) specify the price and payment terms, and (4) require the seller to issue a deed upon full payment.

A fiscal impact would occur only if a current or future contract does not contain these terms. If a contract does not meet these requirements, then the deduction would be terminated. Without the deduction(s), the net assessed value of the property would increase which would add to the tax base and reduce tax rates. In addition, if the standard deduction is removed from a property, then taxes on the property would be capped at the 2% residential cap rate rather than the 1% homestead cap rate.

Beginning with mobile home taxes payable in CY 2012 and real property taxes payable in CY 2013 under the bill, a seller who makes a misrepresentation that causes a buyer to improperly claim a deduction would be liable for all back taxes including penalties and interest, plus an additional 10% penalty.

The actual fiscal impact depends on the number of contracts that would be deemed by county officials to be nonconforming.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County auditors; County recorders.

Information Sources:

Fiscal Analyst: Bob Sigalow, 317-232-9859.